

106

AUDITOR-GENERAL

The Accounting Officer
Ikwezi Municipality
PO Box 112
Jansenville
6265

Reference: 60071REG06/07
Enquiries: V Reddy
Date: 14 December
2007



Dear Sir

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF IKWEZI MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007

1. The above-mentioned report of the Auditor-General are submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004 read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA)
2. In terms of section 121(3) and 127(2) of the MFMA municipalities have to include the audit report in the municipality's annual report for tabling within seven months after the end of the financial year.
3. Until tabled as required by section 127(2) the report is not a public document and should therefore be treated as confidential.
4. As your municipality will be responsible for publishing the attached audit report as part of the annual report, you are required to do the following please:
 - Submit the final printer's proof of the annual report (which includes the audit report) to the relevant audit manager of the Auditor-General for verification of the audit-related references before it is printed or copied. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature at the end of the hard copy of the audit report should be scanned in when preparing to print the report. The typeset initials and surname of the signatory, with the words 'for Auditor-General' on the same line, as well as the place and date of signing and the logo should also appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.



AUDITOR-GENERAL

5. Please notify the Provincial Auditor-General (Business Executive) well in advance of the date on which the audit report, or the annual report containing this audit report, will be tabled at the municipality.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.
7. Management requested a more detailed description related to the headings used in paragraph 17 to the audit report. Annexure A to this letter refers.
8. Kindly acknowledge receipt of this letter.

Yours faithfully

Veronique Reddy

VERONIQUE REDDY
for Auditor-General

REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL OF THE IKWEZI MUNICIPALITY (AND THE EASTERN CAPE PROVINCIAL LEGISLATURE) ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE IKWEZI MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Ikwezi Municipality which comprise the balance sheet as at 30 June 2007, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 1 to 26.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting as set out in accounting policy note 1 to the financial statements in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit in accordance with the International Standards on Auditing. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis of accounting

4. The municipality's policy is to prepare the financial statements on the entity-specific basis of accounting as set out in accounting policy note 1 to the financial statements.

Basis for disclaimer of opinion

5. I was not able to obtain sufficient appropriate audit evidence over the completeness, accuracy and validity of revenue due to the following:

Income – Community services

- 5.1 Included in the Income Statement is an amount of R7 413 351 for Community services. Due to the following factors reasonable assurance could not be obtained over this revenue amount in the financial statements at 30 June 2007:

1.1 Preparation of the rateable valuation roll reconciliation.

No reconciliation between the valuation totals and the rates charged was performed for the financial year ended 30 June 2007. As a result there is no assurance that amounts charged for rates were accurate, and therefore revenue may be misstated.

5.1.2 Updating of billing system

The program that is used to update changes of the billing system, Win Deeds, was not loaded onto the system until after 30 June 2007. As the program was not operational, the billing system was not updated timeously during the year under review. As a result it was not assurance that revenue was complete and accurate.

5.1.3 Direct income register

An informal diary was maintained for several purposes, including the recording of bookings, resident complaints and the recording of rental deposits received. No separate register was maintained to account for all forms of income received separately. Per inspection of the diary, it is not clear which entries relate to which category of income, as insufficient detail was provided. It was further noted that there was insufficient detail to determine the completeness of income amounts as receipt numbers were not consistently recorded.

Income – Trading services

5.2 Included in the Income Statement is an amount of R2 707 372 for Trading services. Due to the following factor reasonable assurance could not be obtained over this revenue amount in the financial statements at 30 June 2007:

Water meters had been installed and read for only ten properties, and these meters had been fitted to the main pipeline and not the individual property pipelines. There is therefore no means to calculate the volume of water that should be have been billed per property. All ten properties were being charged for water consumed on the main pipeline, and not for the water consumed by that individual property.

Leave Reserve

6. Furthermore, included in the balance sheet is an amount of R1 305 664 for reserves. Included in this amount is the leave reserve fund. I was not able to obtain sufficient appropriate audit evidence over the accuracy and valuation of the leave reserve fund due to the following:

This attendance registers and the leave records were not reconciled during the year under review. Leave as indicated in the attendance register did not in all instances correspond with the leave as per the leave records, casting doubt over the accuracy of the leave credits on which the leave reserve fund was based.

Property, plant and equipment

7. Furthermore, included in the note 4 to the financial statements is an amount of R49 973 215 for property, plant and equipment. I was not able to obtain sufficient appropriate audit evidence over the valuation of property, plant equipment due to the following:

7.1 The administration office and clinic in Klipplaat, owned by the Ikwezi Municipality, were not recorded in the records of the Ikwezi Municipality, nor were the deeds of the properties recorded in the name of the Ikwezi Municipality. As a result the fixed assets and the loans redeemed and capital receipts are understated.

2 Assets were revalued during the year based on capital expenditure from the 2004/2005 financial year onwards. All assets purchased before that date, which are still owned by the Municipality, were not included in the valuation due to the fact that no supporting documentation was available.

Unauthorised Expenditure

8. The council did not have any policy or procedure in place through which unauthorised, irregular, fruitless and wasteful expenditure could be identified and reported upon as required by section 32 of the MFMA.

A loss of R 318 082 was incurred on the Mohair Festival. The expenditure relating was included in the balance disclosed as part of economic services on the income statement and was not budgeted for. Further, payments made for the festival, did not have all the required signatures authorising the expenditure. It is viewed that this expenditure qualifies as unauthorised expenditure. No disclosure of this fact has been made in the Annual Financial Statements at 30 June 2007.

Going concern

9. The going concern concept assumes that the entity will continue in operational existence for the foreseeable future. It further implies that the entity has neither the intention nor the need to discontinue or curtail materially the scale of its operations or the services rendered in terms of its mandate.

The Council's financial statements have been prepared on the going concern basis which assumes that it will be able to meet its future obligations and commitments as it occurs in the ordinary course of business. Accordingly, the financial statements do not include any adjustments relating to the valuation of assets and the classification of liabilities which might be necessary if the Council is unable to continue as a going concern.

The following indicate that the Council is at risk to operate as a going concern:

- (a) 99% of the 2007 (98% for 2006) capital expenditure is financed through grants and subsidies
- (b) Approximately 50% of the 2007 and 2006 income consist of subsidies, grants and the equitable share.

Disclaimer of opinion

10. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Ikwezi Municipality. Accordingly, I do not express an opinion on the financial statements.

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

Non Compliance with applicable legislation

Creditors

11. In terms of section 99(2)(b) of the MFMA, the accounting officer must take all reasonable steps to ensure that all money owing by the entity is paid within 30 days of receiving the relevant invoice or statement. However, it was found that some creditors had not been paid within 30 days of the invoice date.

Budget Process

12. No proof could be found that the following processes as required by Section 21 of the MFMA took place during the year:

- (a) Necessary inputs for the budget had been requested from the various departments
- (b) Budget information had been properly addressed during financial and budget meetings
- (c) Minutes of the meetings where budget issues were discussed had been prepared and made known to the various departments
- (d) Minutes had been adequately discussed and dealt with by all relevant departments
- (e) Heads of departments were informed on the final outcome of the budget process and targets set.

The budget was also not aligned with the integrated development plan. The municipality did have plans for capital projects but due it being dependant on grants and subsidies for such projects, such projects were not included in the budget.

Matters of Governance

13. Adequate governance structures appear to be lacking at the municipality as the internal audit department only performed a limited review during the year. Coupled with the fact that there is a lack of internal control policies, there is the opportunity for fraudulent acts to be committed which may not be detected or prevented.

Internal controls

14. In terms of section 82 (1)(c) of the MFMA, the accounting officer of a municipality has to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. Deficiencies in internal control measures identified during this audit were brought to the attention of management by means of a management letter.

Income community services: Prep aration of the rateable valuation roll reconciliation					X
Income community services: Updating of billing system				X	
Income				X	

community services: Direct income register					
Income - Trading services:	X				
Water meters on properties					
Leave Reserve			X		
Property, plant and equipment: Capitalisation of assets			X		
Property, plant and equipment: Revaluation of Assets				X	
Unauthorised expenditure					X
Going concern	X				
Non-compliance with applicable laws and regulations					X
Matters of governance					X

Control Environment

15. The entity did not establish the key elements of a control environment to achieve sound financial management. This is evident from material control weaknesses identified and disclosed under non-compliance with laws and regulations. In addition, this gave rise to the numerous qualifications reported above. This is further evidenced by the following:

- (a) No financial management-related policies or guidelines have been developed by the municipality or management;
- (b) There is a lack of formal and approved policies with regards to human resources and overtime;
- (c) There is no fraud prevention plan in place to prevent and detect fraud risks.

Control activities

16. The effectiveness of control activities over business and accountancy processes was not adequate. This is evident from the matters reported relating to leave reserve and the inadequate capitalization of property, plant and equipment.

Information and Communication

17. The municipality did not have adequate systems for the management of its billing system and direct income register as well as the revaluation of its property, plant and equipment. This was due to the inadequate maintenance of proper accounting records and systems by management.

Monitoring

18. The monitoring of controls, such as the preparation and review of reconciliations and the internal audit process, was not effective. This contributed to the matters reported above relating to the reconciliation of the valuation roll and various other non-compliance with relevant legislation. The internal audit did not provide an effective service to management by assisting them in their governance responsibilities.

OTHER REPORTING RESPONSIBILITIES**Reporting on performance information**

19. I was engaged to audit the performance information.

Responsibility of the accounting officer for performance information

20. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government Municipal Systems Act 2000 (Act No. 32 of 2000)(MSA).

Responsibility of the Auditor-General

21. I conducted my engagement in accordance with section 13 of the Public audit Act, 2004 (Act No. 25 of 2004) read with General Notice 846 of 2007, issued in Government Gazette No. 29919 of 25 May 2007 and section 45 of the Local government: Municipal Systems Act 2000 (Act No. 32 of 2000).

22. In terms of the foregoing, my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems processes and procedures. The procedures selected depend on the auditor's judgement.

23. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Non-compliance with regularity requirements

24. I have not been able to audit the performance information as the Performance Management System had not been implemented as at 30 June 2007 as required.
25. This is in contravention with section 38 (a)(iii) of the MSA which requires that a municipality must establish a performance management system that is in line with the priorities, objectives, indicators and targets contained in its integrated development plan.

APPRECIATION

26. The assistance rendered by the staff of the Ikwezi Municipality during the audit is sincerely appreciated.

Auditor-General.

Port Elizabeth

30 November 2007





IKWEZI
U Masipala. Municipaliteit.
Municipality
Tel : 049-6300021, Fax : 049-6360105
P.O. Box 12, JANSENVILLE, 6265

Faxsimile transmittal sheet

DATE: 14 March 2008

TO: Errol Le Roux
 COMPANY: Provincial Treasury
 FAX NUMBER: 041 - 374 3483
 PAGES: 10 (including this one)

AUDIT REPORT: 2007/08

Please find our attached audit report for 2006/07 as requested,

Regards

 Martin Meyer
 Senior Accountant
 Ikwezi Municipality

TX RESULT REPORT

NAME :PROV TREASURY
 TEL :041 3743483
 DATE :MAR.14.2008 15:08

SESSION	FUNCTION	NO.	DESTINATION STATION	DATE	TIME	PAGE	DURATION	MODE	RESULT
0857	TX	001	0406363645	MAR.14	15:06	008	00h02min49s	ECM -14.4	OK



IKWEZI
UMasipala. Municipaliteit.
Municipality
Tel : 041-5360021, Fax : 041-5360196
P.O. Box 12, JANSENVILLE, 6205

Faximile transmittal sheet

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Regards

 Martin Meyer
 Senior Accountant
 Ikwezi Municipality

TX RESULT REPORT

NAME :PROV TREASURY
 TEL :041 3743483
 DATE :MAR.14.2008 15:44

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0858	TX	001	0406350029	MAR.14	15:42	008	00h01min24s	ECM -31.2	OK

Community services: Direct income register					
Income Trading services: Water meters on properties	X				
Leave Reserve			X		
Property, plant and equipment: Capitalisation of assets			X		
Property, plant and equipment: Capitalisation of assets				X	
Procurement procedure					X
Compliance	X				
Notes: Compliance with applicable laws and regulations					X
Matters of governance					X

Control Environment

19. The entity did not establish the key elements of a control environment to achieve sound financial management. This is evident from material control weaknesses identified and disclosed under non-compliance with laws and regulations. In addition, this gave rise to the numerous qualifications reported above. This is further evidenced by the following:
- (a) No financial management-related policies or guidelines have been developed by the municipality or management;
 - (b) There is a lack of formal and approved policies with regards to human resources and overtime;
 - (c) There is no fraud prevention plan in place to prevent and detect fraud risks.

TX RESULT REPORT

NAME :PROV TREASURY
 TEL :041 3743483
 DATE :MAR.17.2008 08:36

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